

HANOVER HOSPITAL
a/k/a WASHINGTON COUNTY HOSPITAL DISTRICT NO. 1

FINANCIAL STATEMENTS
and
ADDITIONAL INFORMATION
with
INDEPENDENT AUDITOR'S REPORT

YEARS ENDED DECEMBER 31, 2011 AND 2010

George, Bowerman & Noel, P.A.
Certified Public Accountants

CONTENTS

	<u>Page</u>
Independent auditor's report.....	1
Management's discussion and analysis	3
Financial statements:	
Balance sheets	9
Statements of revenues, expenses, and changes in net assets	11
Statements of cash flows	12
Notes to financial statements	14
Additional information:	
Schedule of revenues, expenditures, and changes in fund balance – Budget and actual – Budgetary basis – Operations and maintenance fund	29
Schedule of patient service revenue	30
Schedule of operating expenses by functional division	31

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INDEPENDENT AUDITOR'S REPORT

Board of Trustees
Hanover Hospital
a/k/a Washington County Hospital District No. 1
Hanover, Kansas

We have audited the financial statements of Hanover Hospital a/k/a Washington County Hospital District No. 1, as listed in the table of contents, at and for the years ended December 31, 2011 and 2010. These financial statements are the responsibility of the Hospital's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the Kansas Municipal Audit Guide. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Hanover Hospital a/k/a Washington County Hospital District No. 1 at December 31, 2011 and 2010, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The accompanying financial statements have been prepared assuming that the Hospital District will continue as a going concern. As discussed in Note 12 to the financial statements, the Hospital District has suffered recurring losses from operations and decreases in working capital that raises substantial doubt about its ability to continue as a going concern. Management's plans in regard to these matters are also described in Note 12. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 3 through 8 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited

procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audits were made for the purpose of forming opinions on the basic financial statements taken as a whole. The additional information, as listed in the table of contents, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from, and relates directly to, the underlying accounting and other records used to prepare the financial statements. Such information has been subjected to the auditing procedures applied in the audits of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the financial statements themselves and other additional procedures, in accordance with auditing standards generally accepted in the United States of America. In our opinion, the additional information is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

George, Bauman & Noel, P.A.

Wichita, Kansas
June 22, 2012

HANOVER HOSPITAL

a/k/a WASHINGTON COUNTY HOSPITAL DISTRICT NO. 1

MANAGEMENT'S DISCUSSION AND ANALYSIS

Our discussion and analysis of Hanover Hospital's (Hospital District's) financial performance provides an overview of the Hospital District's financial activities for the fiscal years ended December 31, 2011 and 2010. Please read it in conjunction with the Hospital District's financial statements, which begin on page 9.

Financial Highlights

- The Hospital District's net assets decreased by \$5,023 or 0.60 percent in 2011 compared to a decrease in 2010 of \$5,004 or 0.59 percent.
- The Hospital District reported operating losses \$187,754 and \$158,149 in 2011 and 2010, respectively.
- Net nonoperating revenues increased by \$29,586 or 19.32 percent in 2011 compared to 2010. Net nonoperating revenues decreased in 2010 by \$46,871 or 23.43 percent compared to 2009. The changes in 2011 and 2010 were primarily due to differences in contributions received.

Financial Statements

The Hospital District's financial statements are prepared using proprietary fund accounting that focuses on the determination of changes in net assets, financial position and cash flows in a manner similar to private-sector businesses. The financial statements are prepared on an accrual basis of accounting which recognizes revenue when earned and expenses when incurred. The basic financial statements include a *balance sheet*, *statement of revenue, expenses and changes in net assets*, and *statement of cash flows*, followed by notes to the financial statements and schedules of certain additional information.

The *balance sheet* presents information on the Hospital District's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may indicate whether the financial position of the Hospital District is improving or deteriorating.

The *statement of revenues, expenses and changes in net assets* presents both the operating revenues and expenses and nonoperating revenues and expenses along with other changes in net assets for the year. This statement is an indication of the success of the Hospital District's operations over the past year.

The *statement of cash flows* presents the change in cash and cash equivalents for the year resulting from operating activities, capital and related financing activities and investing activities. The primary purpose of this statement is to provide information about the Hospital District's cash receipts and cash payments during the year.

Financial Position

The following schedule summarizes the Hospital District's net assets as of December 31, 2011, 2010 and 2009.

	December 31,		
	<u>2011</u>	<u>2010</u>	<u>2009</u>
Assets:			
Current assets	\$ 810,348	\$ 689,484	\$ 726,441
Capital assets, net	689,902	694,489	742,170
Other noncurrent assets	<u>36,203</u>	<u>19,449</u>	<u>5,628</u>
Total assets	<u>\$1,536,453</u>	<u>\$1,403,422</u>	<u>\$1,474,239</u>
Liabilities:			
Capital lease obligations	\$ 54,494	\$ 77,732	\$ 111,284
Other liabilities	<u>650,277</u>	<u>488,985</u>	<u>521,246</u>
Total liabilities	<u>\$ 704,771</u>	<u>\$ 566,717</u>	<u>\$ 632,530</u>
Net assets:			
Invested in capital assets, net	\$ 635,408	\$ 616,757	\$ 630,886
Restricted	92	7,075	7,424
Unrestricted	<u>196,182</u>	<u>212,873</u>	<u>203,399</u>
Total net assets	<u>\$ 831,682</u>	<u>\$ 836,705</u>	<u>\$ 841,709</u>

Recent Financial Performance

The following schedule is a summary of the Hospital District's revenues, expenses and changes in net assets for the years ended December 31, 2011, 2010 and 2009.

	December 31,		
	<u>2011</u>	<u>2010</u>	<u>2009</u>
Operating revenue	<u>\$3,072,356</u>	<u>\$2,846,571</u>	<u>\$2,806,445</u>
Operating expenses:			
Salaries	1,756,365	1,570,162	1,617,008
Employee benefits	348,321	334,877	367,291
Supplies and other	1,074,165	1,010,008	1,056,401
Depreciation and amortization	<u>81,259</u>	<u>89,673</u>	<u>104,366</u>
Total operating expenses	<u>3,260,110</u>	<u>3,004,720</u>	<u>3,145,066</u>
Loss from operations	<u>(187,754)</u>	<u>(158,149)</u>	<u>(338,621)</u>
Nonoperating revenues:			
Taxes	36,514	34,765	34,017
Grants and contributions	138,960	114,646	162,030
Other, net	<u>7,257</u>	<u>3,734</u>	<u>3,969</u>
Total nonoperating revenues	<u>182,731</u>	<u>153,145</u>	<u>200,016</u>
Decrease in net assets	<u>\$ (5,023)</u>	<u>\$ (5,004)</u>	<u>\$ (138,605)</u>
Net assets at end of year	<u>\$ 831,682</u>	<u>\$ 836,705</u>	<u>\$ 841,709</u>

The first component of the overall change in the Hospital District's net assets is its operating income (loss)—generally, the difference between net patient service revenue and the expenses incurred to perform those services. In each of the past three years, the Hospital District has reported an operating loss. This is consistent with the Hospital District's entire operating history. The operating loss in 2011 increased by \$29,586 or 19.32 percent higher than the operating loss reported in 2010. The operating loss in 2010 decreased by \$180,472 or 53.30 percent lower than the operating loss reported in 2009.

Gross patient service revenue, that is, charges to patients before reduction for contractual adjustments and the provision for bad debts, increased by approximately \$224,000 or 8 percent in 2011 and by approximately \$41,000 or 2 percent in 2010.

The Hospital District recognizes contractual adjustments and the provision for bad debts against gross patient service revenue to arrive at net patient service revenue. Contractual adjustments represent amounts not collected due to government regulations concerning the calculation of healthcare payments for Medicare and Medicaid beneficiaries and for adjustments for various contractual agreements with commercial insurance carriers. The contractual adjustments as a percentage of patient service revenue was approximately 23% in both 2011 and 2010.

Operating expenses increased by approximately 9% from 2010 to 2011 primarily as a result of increases in salaries and employees benefits of approximately 10%.

Nonoperating revenues consist primarily of grants and contributions and property taxes levied by the Hospital District.

Patient Volumes

Pertinent patient volume statistics are summarized in the following table:

	<u>2011</u>	<u>2010</u>	<u>2009</u>
Inpatient acute days	376	350	387
Observation bed days	<u>181</u>	<u>121</u>	<u>111</u>
	<u>557</u>	<u>471</u>	<u>498</u>
Percent change	<u>18.26%</u>	<u>(5.42)%</u>	<u>(7.09)%</u>
Swing bed-skilled days	<u>1,050</u>	<u>1,164</u>	<u>1,143</u>
Percent change	<u>(9.79)%</u>	<u>1.84%</u>	<u>19.81%</u>
Swing bed-ICF days	<u>5,636</u>	<u>3,505</u>	<u>3,758</u>
Percent change	<u>60.80%</u>	<u>(6.73)%</u>	<u>(29.57)%</u>

Capital Assets

At the end of 2011, the Hospital District had \$635,408 invested in capital assets, net of accumulated depreciation and debt outstanding for the acquisition of capital assets, as detailed in Notes 7 and 8 to the financial statements. The Hospital District acquired approximately \$77,000 of capital assets during 2011, consisting of the following:

Radiology system	\$ 49,177
Autoclave	21,455
Air handler equipment	<u>6,040</u>
	<u>\$ 76,672</u>

Debt

At December 31, 2011, the Hospital District had approximately \$54,000 of outstanding capital lease obligations relating to the acquisition certain laboratory and patient monitoring equipment.

Other Economic Factors

The assessed valuation for the Hospital District for 2012 is \$10,739,148 that is an increase of approximately 8.01 percent from the 2011 amount of \$9,942,876. The total ad valorem taxes levied for 2011 was \$33,454 compared to \$32,413 for 2010.

Issues Facing the Hospital District

There are issues facing the Hospital District that could result in material changes in its financial position in the long term. Among these issues are:

- Risks related to Medicare and Medicaid reimbursement. A significant portion of the Hospital District's revenues are derived from the Medicare program, which provides certain healthcare benefits to beneficiaries who are over 65 years of age or disabled, and the Medicaid program, funded jointly by the federal government and the states, which provides medical assistance to certain needy individuals and families. The funding of these programs by the federal and state governments face increasing pressure due to the significant increases in the costs of providing healthcare services in recent years.
- Healthcare reform. In 2010, the federal government enacted sweeping new legislation that will significantly impact virtually all aspects of the healthcare delivery and insurance Hospital Districts in the country. Portions of the legislation will be implemented over the next several years. However, most of the detailed implemented regulations have not yet been issued and accordingly, any specific effects on operations of the Hospital District are currently undeterminable. Management continues to closely monitor the progression of the implementation of the legislation.
- Employment and labor issues. The Hospital District is a major employer within the community, employing a complex mix of professional, technical, clerical, maintenance, dietary, and other workers. Risks include personal tort actions, work-related injuries and exposure to hazardous materials. A relative shortage of nursing and other medical professional/technical employees, is an issue that is causing salary and benefits costs to increase at significant rates.
- Technology and services. Scientific and technological advances, new procedures, drugs and appliances, preventive medicine, and outpatient healthcare delivery may reduce utilization and revenues for the Hospital District in the future. Technological advances continue to accelerate the need to acquire sophisticated and expensive equipment and services for diagnosis and treatment of illnesses and diseases.
- Increasing numbers of uninsured and underinsured patients. Due to the significant increases and high cost of healthcare insurance premiums in recent years, increasing numbers of patients of the Hospital District are finding it more and more difficult to obtain or maintain adequate health insurance coverage. This trend could increase the levels of uncompensated care provided by the Hospital District.

Contacting The Hospital District's Financial Management

This financial report is designed to provide our patients, suppliers, taxpayers, and creditors with a general overview of the Hospital District's finances and to show the Hospital District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Hospital District Administration Department, at Hanover Hospital, a/k/a Washington County Hospital District No. 1, 205 S. Hanover, Hanover, Kansas 66945.

HANOVER HOSPITAL

a/k/a WASHINGTON COUNTY HOSPITAL DISTRICT NO. 1

BALANCE SHEETS

ASSETS

	<u>December 31,</u>	
	<u>2011</u>	<u>2010</u>
Current assets:		
Cash (Notes 3 and 4)	\$ 129,985	\$ 192,403
Accounts receivable, net of allowance for doubtful accounts of \$259,900 in 2011 and \$235,739 in 2010	521,057	331,077
Uncollected current property taxes receivable (Note 1)	39,604	34,936
Inventories (Note 1)	105,918	110,713
Other	<u>13,784</u>	<u>20,355</u>
Total current assets	<u>810,348</u>	<u>689,484</u>
 Board-designated assets (Notes 3 and 4)	<u>36,203</u>	<u>19,449</u>
 Property and equipment, at cost (Notes 1 and 7):		
Land	14,229	14,229
Land improvements	33,945	33,945
Building	1,154,509	1,167,761
Fixed equipment	524,897	434,973
Movable equipment	<u>1,030,157</u>	<u>1,062,600</u>
Total property and equipment	2,757,737	2,713,508
Less accumulated depreciation	<u>2,067,835</u>	<u>2,019,019</u>
Net property and equipment	<u>689,902</u>	<u>694,489</u>
Total assets	<u>\$ 1,536,453</u>	<u>\$ 1,403,422</u>

LIABILITIES AND NET ASSETS

	<u>December 31,</u>	
	<u>2011</u>	<u>2010</u>
Current liabilities:		
Accounts payable	\$ 210,172	\$ 177,656
Salaries and wages payable	120,578	102,027
Payroll taxes payable	44,008	36,296
Estimated third-party payer settlements (Note 2)	115,175	34,101
Current portion of compensated absences payable (Notes 1 and 8)	115,910	99,810
Current portion of capital lease obligations (Note 8)	25,824	23,238
Unearned revenue-uncollected current property taxes (Note 1)	<u>39,604</u>	<u>34,936</u>
Total current liabilities	<u>671,271</u>	<u>508,064</u>
Long-term liabilities:		
Capital lease obligations (Note 8)	28,670	54,494
Compensated absences payable (Notes 1 and 8)	<u>4,830</u>	<u>4,159</u>
Total long-term liabilities	<u>33,500</u>	<u>58,653</u>
Total liabilities	<u>704,771</u>	<u>566,717</u>
Net assets (Notes 1 and 5):		
Invested in capital assets net of related debt	635,408	616,757
Restricted – expendable for specific operating activities	92	7,075
Unrestricted	<u>196,182</u>	<u>212,873</u>
Total net assets	<u>831,682</u>	<u>836,705</u>
Total liabilities and net assets	<u>\$ 1,536,453</u>	<u>\$ 1,403,422</u>

The accompanying notes are an integral
part of the financial statements.

HANOVER HOSPITAL

a/k/a WASHINGTON COUNTY HOSPITAL DISTRICT NO. 1

STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS

	Year ended December 31,	
	2011	2010
Operating revenues:		
Net patient service revenue (Note 1)	\$ 3,052,016	\$ 2,827,696
Ambulance subsidy	<u>20,340</u>	<u>18,875</u>
Total operating revenues	<u>3,072,356</u>	<u>2,846,571</u>
Operating expenses:		
Salaries	1,756,365	1,570,162
Employee benefits	348,321	334,877
Supplies and other	1,074,165	1,010,008
Depreciation and amortization (Note 1)	<u>81,259</u>	<u>89,673</u>
Total operating expenses	<u>3,260,110</u>	<u>3,004,720</u>
Loss from operations	<u>(187,754)</u>	<u>(158,149)</u>
Nonoperating revenues (expenses):		
Taxes	36,514	34,765
Investment income	568	550
Interest expense	(7,068)	(9,639)
Noncapital contributions and grants	68,328	114,646
Other	<u>13,757</u>	<u>12,823</u>
Total nonoperating revenues (expenses)	<u>112,099</u>	<u>153,145</u>
Excess of expenses over revenues before capital contributions	(75,655)	(5,004)
Capital contributions and grants	<u>70,632</u>	<u>—</u>
Decrease in net assets	(5,023)	(5,004)
Net assets at beginning of year	<u>836,705</u>	<u>841,709</u>
Net assets at end of year	<u>\$ 831,682</u>	<u>\$ 836,705</u>

The accompanying notes are an integral part of the financial statements.

HANOVER HOSPITAL

a/k/a WASHINGTON COUNTY HOSPITAL DISTRICT NO. 1

STATEMENTS OF CASH FLOWS

	<u>Year ended December 31,</u>	
	<u>2011</u>	<u>2010</u>
Cash flows from operating activities:		
Receipts from and on behalf of patients	\$ 2,943,110	\$ 2,984,928
Payments to suppliers and contractors	(1,022,571)	(1,098,836)
Payments to employees	(1,721,043)	(1,563,711)
Payments for employee benefits	(348,321)	(334,877)
Other receipts and payments, net	<u>20,340</u>	<u>18,875</u>
Net cash flows provided (used) by operating activities	<u>(128,485)</u>	<u>6,379</u>
Cash flows from noncapital financing activities:		
Property taxes for operations	36,514	34,765
Noncapital contributions and grants	68,328	114,646
Other	<u>13,757</u>	<u>12,823</u>
Net cash flows provided by noncapital financing activities	<u>118,599</u>	<u>162,234</u>
Cash flows from capital and related financing activities:		
Purchases of capital assets	(76,672)	(41,992)
Capital contributions and grants	70,632	—
Interest payments on long-term debt	(7,068)	(9,639)
Principal payments on long-term debt	<u>(23,238)</u>	<u>(33,552)</u>
Net cash flows used by capital and related financing activities	<u>(36,346)</u>	<u>(85,183)</u>
Cash flows from investing activities:		
Additions to board-designated assets	(20,411)	(23,146)
Uses of board-designated assets	3,657	9,325
Investment income	<u>568</u>	<u>550</u>
Net cash flows used by investing activities	<u>(16,186)</u>	<u>(13,271)</u>
Net increase (decrease) in cash and cash equivalents	(62,418)	70,159
Cash and cash equivalents at beginning of year	<u>192,403</u>	<u>122,244</u>
Cash and cash equivalents at end of year	<u>\$ 129,985</u>	<u>\$ 192,403</u>

HANOVER HOSPITAL

a/k/a WASHINGTON COUNTY HOSPITAL DISTRICT NO. 1

STATEMENTS OF CASH FLOWS - continued

	<u>Year ended December 31,</u>	
	<u>2011</u>	<u>2010</u>
Reconciliation of operating loss to net cash provided (used) by operating activities:		
Operating loss	\$ (187,754)	\$ (158,149)
Adjustments to reconcile operating loss to net cash flows used in operating activities:		
Depreciation and amortization	81,259	89,673
Provision for doubtful accounts, net of recoveries	69,310	(25,359)
Net (increases) decreases in current assets:		
Accounts receivable	(259,290)	66,524
Property taxes receivable	(4,668)	(2,848)
Inventories	4,795	(14,974)
Estimated third-party payer settlements	—	81,966
Other current assets	6,571	1,807
Net increases (decreases) in current liabilities:		
Accounts payable	32,516	(76,562)
Compensated absences payable	16,771	9,358
Salaries payable	18,551	(2,907)
Payroll taxes payable	7,712	901
Estimated third-party payer settlements	81,074	34,101
Deferred revenue-uncollected current property taxes	<u>4,668</u>	<u>2,848</u>
Net cash provided (used) by operating activities	<u>\$ (128,485)</u>	<u>\$ 6,379</u>

The accompanying notes are an integral part of the financial statements.

HANOVER HOSPITAL

a/k/a WASHINGTON COUNTY HOSPITAL DISTRICT NO. 1

NOTES TO FINANCIAL STATEMENTS

December 31, 2011 and 2010

1. Summary of significant accounting policies

This summary of significant accounting policies is presented to assist in understanding the Hospital District's financial statements. The financial statements and notes are representations of the Hospital District's management, which is responsible for their integrity and objectivity. These accounting policies conform to generally accepted accounting principles and have been consistently applied in the preparation of the financial statements.

Organization and business activity

The Washington County Hospital District No. 1 (the Hospital District) is a political subdivision of the state of Kansas and is governed by a Board of Trustees. The Hospital District provides acute inpatient, outpatient, swing bed, and home health services.

Basis of accounting and presentation

The financial statements of the Hospital District have been prepared on the accrual basis of accounting using the economic resources measurement focus. Revenues, expenses, gains, losses, assets and liabilities from exchange and exchange-like transactions are recognized when the exchange transaction takes place. Operating revenues and expenses include exchange transactions. Property taxes, investment income, interest on capital assets-related debt are included in nonoperating revenues and expenses.

The Hospital District prepares its financial statements as a business-type activity in conformity with applicable pronouncements of the Governmental Accounting Standards Board (GASB). Pursuant to GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, as amended, the Hospital District has elected to apply the provisions of all relevant pronouncements of the Financial Accounting Standards Board (FASB), including those issued after November 30, 1989, that do not conflict with or contradict GASB pronouncements.

1. Summary of significant accounting policies (continued)

Use of estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and cash equivalents

For purposes of the statement of cash flows, the Hospital District considers short-term certificates of deposit, money market, and interest bearing checking accounts that have not been designated by the Board of Trustees for replacement of or additions to capital assets (Note 3), to be cash equivalents.

Patient accounts receivable

The Hospital District reports patient accounts receivable (Note 6) for services rendered at net realizable amounts from third-party payers, patients and others. The Hospital District provides an allowance for uncollectible accounts based upon a review of outstanding receivables, historical collection information, payer mix trends, and existing economic conditions. As a service to patients, the Hospital District bills third-party payers directly and bills the patient when the patient's liability is determined. Patient accounts receivable are generally due in full when billed. Accounts are considered delinquent and subsequently written off as bad debts based on individual credit evaluation and specific circumstances of the account. If future actual default rates on accounts receivable differ from those currently anticipated, the Hospital District may have to adjust its allowance for doubtful accounts, which would affect earnings in the period the adjustments are made.

Budgetary principles

The Hospital District is required by state statute to adopt annual budgets using the modified accrual basis of accounting for the operations and maintenance fund on or before August 25 of the preceding year. The Hospital District's Board of Trustees may amend the budget by transferring budgeted amounts from one object or purpose to another within the same fund. Expenditures may not legally exceed the total amount of the adopted budget of individual funds.

Under the modified accrual basis of accounting revenues are recognized when they become both measurable and available to finance expenditures of the current period. Expenditures are recognized when the related fund liability is incurred.

1. Summary of significant accounting policies (continued)

Applicable Kansas statutes require the use of an encumbrance system as a management control technique to assist in controlling expenditures. For budgetary purposes, encumbrances of the budgeted governmental fund types, representing purchase orders, contracts and other commitments, are reported as a charge to the current year budget. All unencumbered appropriations lapse at the end of the year. Budgeted revenue and expenditure amounts represent the original budget adopted by the Hospital Board of Trustees.

The following reconciliation is presented to provide a correlation between the different bases of accounting for reporting in accordance with generally accepted accounting principles (GAAP) and for reporting on the budgetary basis for the operations and maintenance fund:

GAAP basis net assets at December 31, 2011	\$ 831,682
Adjustments:	
Net property and equipment	(689,902)
Capital lease obligations	<u>54,494</u>
Budgetary basis fund balance at December 31, 2011	<u>\$ 196,274</u>

Property taxes receivable

In accordance with governing statutes, property taxes levied during the current year are a revenue source to be used to finance the budget of the ensuing year. Taxes are assessed on a calendar year basis and become a lien on the property on November 1 of each year. The County Treasurer is the tax collection agent for all taxing entities within the County. Property owners have the option of paying one-half or the full amount of the taxes levied on or before December 20 during the year levied with the balance to be paid on or before May 10 of the ensuing year. State statutes prohibit the County Treasurer from distributing taxes collected in the year levied prior to January 1 of the ensuing year. Consequently, for revenue recognition purposes, the taxes levied during the current year are not due and receivable until the ensuing year. At December 31 such taxes are a lien on the property and are recorded as taxes receivable, net of anticipated delinquencies, with a corresponding amount recorded as unearned revenue on the balance sheet of the appropriate funds.

Inventories

Inventories are stated at the lower of cost or market. Cost is determined by the first-in, first-out method.

1. Summary of significant accounting policies (continued)

Risk management

The Hospital District is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; natural disasters; and employee health benefits. Commercial insurance coverage is purchased for claims arising from such matters. Settled claims have not exceeded this commercial insurance coverage in any of the three preceding years.

The Hospital District pays fixed premiums for annual medical malpractice coverage under an occurrence-basis policy. The Hospital District accrues the expenses of its share of malpractice claim costs, if any, of reported and unreported incidents of potential improper professional service occurring during the year by estimating the probable ultimate cost of any incident. Based on the Hospital District's own claims experience, no accrual, for medical malpractice costs has been made in the accompanying financial statements.

Capital assets

The Hospital District's capital assets that are \$5,000 or greater, are recorded at cost at the date of acquisition, or fair value at the date of donation if acquired by gift. All capital assets other than land are depreciated or amortized (in the case of capital leases) using the straight-line method of depreciation using the following estimated useful lives:

Land improvements	10 to 15 years
Buildings	10 to 40 years
Fixed equipment	5 to 20 years
Movable equipment	5 to 20 years

The costs of maintenance and repairs are charged to operating expenses as incurred. The costs of significant additions, renewals and betterments to depreciable properties are capitalized and depreciated over the remaining or extended estimated useful lives of the item or the properties. When depreciable property is retired or otherwise disposed of, the related costs and accumulated depreciation are removed from the accounts and any gain or loss is reflected as non-operating revenue (expense).

1. Summary of significant accounting policies (continued)

Net patient service revenue

The Hospital District has agreements with third-party payers that provide for payments to the Hospital District at amounts different from its established rates. Payment arrangements include prospectively determined rates per episode, reimbursed costs, discounted charges, and per diem payments. Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payers, and others for services rendered and includes estimated retroactive revenue adjustments under reimbursement agreements with third-party payers, and a provision for uncollectible accounts. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined.

Grants and contributions

From time to time, the Hospital District receives grants and contributions from government agencies, private organizations, and individuals. Revenues from grants and contributions are recognized when all eligibility requirements, including time requirements are met. Grants and contributions may be restricted for either specific operating purposes or for capital purposes. Amounts that are unrestricted or that are restricted to a specific operating purpose are reported as nonoperating revenue. Amounts restricted to capital acquisitions are reported after non-operating revenues and expenses. When the Hospital District has both restricted and unrestricted resources available to finance a particular program, it is the Hospital District's policy to use restricted resources before unrestricted resources.

Net assets

Net assets of the Hospital District are classified in three components. *Net assets invested in capital assets net of related debt* consist of capital assets net of accumulated depreciation and reduced by the current balances of any outstanding borrowings used to finance the purchase or construction of those assets. *Restricted – expendable for specific operating activities* are noncapital net assets that must be used for a particular purpose, as specified by creditors, grantors, or contributors external to the Hospital District. *Unrestricted net assets* are remaining net assets that do not meet the definition of *invested in capital assets net of related debt* or *restricted*.

Operating revenues and expenses

The Hospital District's statement of revenues, expenses, and changes in net assets distinguishes between operating and nonoperating revenues and expenses. Operating revenues result from exchange transactions associated with providing health care services, the Hospital District's principal activity. Nonexchange revenues, including taxes, grants, and contributions received for purposes other than capital asset acquisition, are reported as nonoperating revenues. Operating expenses are all expenses incurred to provide health care services, other than financing costs.

1. Summary of significant accounting policies (continued)

Compensated absences payable

The Hospital's policy regarding vacation pay permits all full-time employees to earn vacation time based on the following rates:

<u>Years of service</u>	<u>Hours per month</u>
1 to 7	6.67
8 to 15	10.00
Over 15	13.34

Upon resignation or retirement from service with the Hospital, employees are entitled to payment for all accrued vacation, up to the allowable maximum. The operations and maintenance fund accrues compensated absence benefits as earned.

Subsequent events

Subsequent events have been evaluated through June 22, 2012, which is the date the financial statements were available to be issued.

2. Estimated third-party payer settlements

The Hospital District has agreements with third-party payers that provide for payments to the Hospital District at amounts different from its established rates. These payment arrangements include:

- Medicare – Inpatient and outpatient services are paid based on cost reimbursement methodologies. The Hospital District is reimbursed for cost reimbursable items at tentative rates with final settlement determined after submission of annual cost reports by the Hospital District and reviews thereof by the Medicare fiscal intermediary. Home health services are paid on prospectively determined rates per episode. These rates vary according to a patient classification system that is based on clinical, diagnostic, and other factors. The Hospital District's classification of patients under the Medicare program and appropriateness of their admission are subject to an independent review by a peer review organization under contract with the Hospital District. The Hospital District's Medicare cost reports have been reviewed by the Medicare fiscal intermediary through December 31, 2009.

2. Estimated third-party payer settlements (continued)

- Medicaid – The Hospital District is reimbursed under a cost reimbursement methodology for inpatient acute and outpatient services. The Hospital District is reimbursed for cost reimbursable items at tentative rates with final settlement determined after submission of annual cost reports by the Hospital District and reviews thereof by the Medicaid fiscal intermediary. The Hospital District's Medicaid cost reports have been reviewed by the Medicaid fiscal intermediary through December 31, 2009.

Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation and change. As a result, it is reasonably possible that recorded settlement estimates will change materially in the near term.

The Hospital District has also entered into payment agreements with certain commercial insurance carriers and other third-party payer programs. The basis for payment to the Hospital District under these agreements includes prospectively determined rates per discharge, discounts from established charges and cost reimbursement.

3. Assets whose use is limited

Assets whose use is limited are as follows:

	<u>December 31,</u>	
	<u>2011</u>	<u>2010</u>
Classified in current assets – Cash		
restricted for specific purposes (Note 5)	\$ 92	\$ 7,075
Classified in board-designated assets:		
Interest bearing checking	<u>36,203</u>	<u>19,449</u>
	<u>\$ 36,295</u>	<u>\$ 26,524</u>

These board-designated assets are designated by the Board of Trustees to be used for the replacement of capital assets or for the acquisition of additional assets. These assets can be utilized for other purposes at the discretion of the Board of Trustees.

4. Cash and invested cash

Deposits

Custodial credit risk for deposits is the risk that in the event of bank failure, the Hospital District's deposits may not be returned or the Hospital District will not be able to recover collateral securities in the possession of an outside party. The Hospital District's policy follows applicable State statutes and requires deposits to be 100% secured by collateral (pledged securities) valued at market, less the amount of the Federal Deposit Insurance Corporation (FDIC) insurance. State statutes define the allowable pledged securities.

The Hospital District's cash and investments at December 31, 2011 consisted of cash on hand, demand deposit, and savings accounts. At year end, the carrying amount of the Hospital District's deposits was \$166,188 with the bank balances of such accounts being \$243,995 which was entirely secured by federal depository insurance.

Investment policies

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligation. The Hospital District's investing activities are managed under the custody of the Hospital District's Administrator. Investing is performed in accordance with investment policies adopted by the Board of Trustees and in compliance with State statutes.

Applicable state statutes authorize the Hospital District to invest in (1) temporary notes or no-fund warrants issued by the Hospital District (2) time deposit, open accounts or certificates of deposit, with maturities of not more than two years, in commercial banks; (3) time certificates of deposit, with maturities of not more than two years, with state or federally chartered savings and loan associations or federally chartered savings banks, (4) repurchase agreements with commercial banks, state or federally chartered savings and loan associations or federally chartered savings banks; (5) United States treasury bills or notes with maturities as the governing body shall determine, but not exceeding two years; (6) the municipal investment pool maintained by the State Treasurer's office, and (7) trust departments of commercial banks.

5. Restricted net assets

Restricted, expendable net assets is available for the following purposes:

	<u>December 31,</u>	
	<u>2011</u>	<u>2010</u>
HIPAA compliance grant	\$ <u>92</u>	\$ <u>7,075</u>

Net assets were released from restrictions by incurring expenditures satisfying the restricted purposes or by occurrence of other events specified by donors:

5. Restricted fund balances (continued)

	<u>Year ended December 31,</u>	
	<u>2011</u>	<u>2010</u>
HIPAA expenses	\$ 14,144	\$ 7,424
EMT training	<u>—</u>	<u>3,660</u>
	<u>\$ 14,144</u>	<u>\$ 11,084</u>

6. Concentrations of credit risk

The Hospital District's cash and investments are on deposit with one local financial institution. As discussed in Note 4, the deposits are fully secured at December 31, 2011.

The Hospital District grants credit without collateral to its patients, most of whom are residents of the local area. The mix of gross accounts receivables was as follows:

	<u>December 31,</u>	
	<u>2011</u>	<u>2010</u>
Medicare	31.93 %	25.51 %
Medicaid	7.45	3.43
Blue Cross	15.04	11.03
Other commercial	8.83	9.12
Other	<u>36.75</u>	<u>50.91</u>
	<u>100.00 %</u>	<u>100.00 %</u>

7. Capital assets

Capital asset additions, disposals, and balances for the years ended December 31, 2011 and 2010 were as follows:

	<u>Balance At</u> <u>December 31,</u> <u>2010</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance At</u> <u>December 31,</u> <u>2011</u>
Capital assets not being depreciated:				
Land	\$ 14,229	\$ —	\$ —	\$ 14,229

7. Capital assets (continued)

	Balance At December 31, 2010	Additions	Disposals	Balance At December 31, 2011
Capital assets being depreciated:				
Land				
improvements	33,945	—	—	33,945
Buildings	1,167,761	—	13,252	1,154,509
Fixed equipment	434,973	89,924	—	524,897
Movable equipment	<u>1,062,600</u>	<u>—</u>	<u>32,443</u>	<u>1,030,157</u>
Total capital assets being depreciated	<u>2,699,279</u>	<u>89,924</u>	<u>45,695</u>	<u>2,743,508</u>
Less accumulated depreciation for:				
Land				
improvements	\$ 23,143	\$ 1,728	\$ —	\$ 24,871
Buildings	902,154	18,707	—	920,861
Fixed equipment	209,132	32,698	—	241,830
Movable equipment	<u>884,590</u>	<u>28,126</u>	<u>32,443</u>	<u>880,273</u>
Total accumulated depreciation	<u>2,019,019</u>	<u>81,259</u>	<u>32,443</u>	<u>2,067,835</u>
Total capital assets being depreciated, net	<u>680,260</u>	<u>8,665</u>	<u>13,252</u>	<u>675,673</u>
Total capital assets, net	<u>\$ 694,489</u>	<u>\$ 8,665</u>	<u>\$ (13,252)</u>	<u>\$ 689,902</u>
	Balance At December 31, 2009	Additions	Disposals	Balance At December 31, 2010
Capital assets not being depreciated:				
Land	<u>\$ 14,229</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 14,229</u>

7. Capital assets (continued)

	Balance At December 31, 2009	Additions	Disposals	Balance At December 31, 2010
Capital assets being depreciated:				
Land				
improvements	33,945	—	—	33,945
Buildings	1,154,509	13,252	—	1,167,761
Fixed equipment	434,973	—	—	434,973
Movable equipment	<u>1,037,360</u>	<u>28,740</u>	<u>3,500</u>	<u>1,062,600</u>
Total capital assets being depreciated	<u>2,660,787</u>	<u>41,992</u>	<u>3,500</u>	<u>2,699,279</u>
Less accumulated depreciation for:				
Land				
improvements	\$ 21,416	\$ 1,727	\$ —	\$ 23,143
Buildings	882,186	19,968	—	902,154
Fixed equipment	179,879	29,253	—	209,132
Movable equipment	<u>849,365</u>	<u>38,725</u>	<u>3,500</u>	<u>884,590</u>
Total accumulated depreciation	<u>1,932,846</u>	<u>89,673</u>	<u>3,500</u>	<u>2,019,019</u>
Total capital assets being depreciated, net	<u>727,941</u>	<u>(47,681)</u>	<u>—</u>	<u>680,260</u>
Total capital assets, net	<u>\$ 742,170</u>	<u>\$ (47,681)</u>	<u>\$ —</u>	<u>\$ 694,489</u>

8. Long-term debt

The following is a summary of changes in long-term debt for the years ended December 31, 2011 and 2010:

	Balance At December 31, 2010	Additions	Reductions	Balance At December 31, 2011	Amounts Due Within One Year
Capital lease obligations	\$ 77,732	\$ –	\$ 23,238	\$ 54,494	\$ 25,824
Compensated absences payable	<u>103,969</u>	<u>140,336</u>	<u>123,565</u>	<u>120,740</u>	<u>115,910</u>
Total long-term liabilities	<u>\$ 181,701</u>	<u>\$ 140,336</u>	<u>\$ 146,803</u>	<u>\$ 175,234</u>	<u>\$ 141,734</u>

	Balance At December 31, 2009	Additions	Reductions	Balance At December 31, 2010	Amounts Due Within One Year
Capital lease obligations	\$ 111,284	\$ –	\$ 33,552	\$ 77,732	\$ 23,238
Compensated absences payable	<u>94,611</u>	<u>89,407</u>	<u>80,049</u>	<u>103,969</u>	<u>99,810</u>
Total long-term liabilities	<u>\$ 205,895</u>	<u>\$ 89,407</u>	<u>\$ 113,601</u>	<u>\$ 181,701</u>	<u>\$ 123,048</u>

The Hospital District leases certain equipment under capital lease agreements. Interest expense related to the lease agreements was \$7,068 and \$9,639 for 2011 and 2010, respectively. The following is an analysis of the financial presentation of the capital leases:

	December 31,	
	2011	2010
Fixed equipment	\$ 101,897	\$ 101,897
Movable equipment	<u>78,451</u>	<u>78,451</u>
	180,348	180,348
Accumulated depreciation	<u>94,187</u>	<u>69,324</u>
	<u>\$ 86,161</u>	<u>\$ 111,024</u>

8. Long-term debt (continued)

The following is a schedule by years of future minimum lease payments under capital leases together with the present value of the net minimum lease payments as of December 31, 2011:

Year ending December 31,	
2012	\$ 30,305
2013	22,378
2014	<u>8,358</u>
Total minimum lease payments	61,041
Less amount representing interest	<u>6,547</u>
Present value of net minimum lease payments	54,494
Less current portion	<u>25,824</u>
Long-term portion of capital lease obligations	<u>\$ 28,670</u>

9. Other post employment benefits

As provided by K.S.A. 12-5040, the Hospital District is required to allow qualifying retirees to participate in the group health insurance plan. While each retiree is required to pay the full amount of the applicable premium, conceptually, the Hospital District is subsidizing the retirees because each participant is charged a level premium regardless of age. However, the cost of the subsidy, if any, has not been quantified in these financial statements.

Under the Consolidated Omnibus Budget Reconciliation Act (COBRA), the Hospital District makes health care benefits available to eligible former employees and their eligible dependents. Certain requirements are outlined by the federal government for this coverage. The premium is paid entirely by the insured and there is no cost to the Hospital District under this plan.

10. Fair value of financial instruments

Generally Accepted Accounting Principles (GAAP) establishes a single authoritative definition of fair value, sets a framework for measuring fair value and requires additional disclosures about fair value measurements. Financial instruments that are measured and reported at fair value are classified and disclosed in one of the following categories based on inputs:

- Level 1 – Quoted market prices are available in active markets for identical instruments as of the reporting date.

10. Fair value of financial instruments (continued)

- Level 2 – Pricing inputs are observable for the instruments, either directly or indirectly, as of the reporting date, but are other than quoted prices in active markets as in Level 1.
- Level 3 – Pricing inputs are unobservable for the instrument and include situations where there is little, if any, market activity for the instrument.

The following methods and assumptions were used by the Hospital District in estimating the fair value of its financial instruments:

Cash and cash equivalents – The carrying amounts reported in the balance sheet for cash and cash equivalents approximates its fair value.

Accounts receivable – The carrying amounts reported in the balance sheet for accounts receivable approximates fair value because of the short-term nature of those instruments.

Estimated third-party payor settlements – The carrying amounts reported in the balance sheet for estimated third-party payor settlements approximates fair value because of the short-term nature of those instruments.

Board designated assets – These assets consist of cash and short-term investments and the carrying amounts reported in the balance sheet approximates their fair value.

Accounts and other payables – The carrying amounts reported in the balance sheet for accounts and other payables approximates its fair value.

Long-term debt – These liabilities consist of capitalized lease obligations. The fair value of these liabilities is estimated using discounted cash flow analyses, based on the interest rate implicit in the lease agreements.

The carrying amounts and fair value of the Hospital District's financial instruments at December 31, 2011 and 2010 are as follows:

	<u>December 31, 2011</u>		<u>December 31, 2010</u>	
	<u>Carrying</u>	<u>Fair</u>	<u>Carrying</u>	<u>Fair</u>
	<u>Amount</u>	<u>Value</u>	<u>Amount</u>	<u>Value</u>
Cash and cash equivalents	\$ 129,985	\$ 129,985	\$ 192,403	\$ 192,403
Accounts receivable	521,057	521,057	331,077	331,077
Estimated third-party payor settlements	115,175	115,175	34,101	34,101
Board designated assets	36,203	36,203	19,449	19,449
Accounts and other payables	495,498	495,498	419,948	419,948
Long-term debt	54,494	54,494	77,732	77,732

11. Compliance with Kansas law

Kansas statutes prohibit the expenditures of individual funds to exceed the adopted budget for such funds. For the year ended December 31, 2011, the operations and maintenance fund expenditures exceeded the adopted budget in the amount of \$175,631.

12. Going concern

The accompanying financial statements have been prepared in conformity with generally accepted accounting principles, which contemplates continuation of the Hospital District as a going concern. However, the Hospital District has sustained substantial operating losses and declines in the volume of patient service revenues in recent years. In addition, the Hospital District has used substantial amounts of working capital in its operations. At December 31, 2011, current liabilities exceeded the cash and investment funds available by \$505,083.

In view of these matters, realization of a major portion of the assets in the accompanying balance sheet is dependent upon continued operations of the Hospital District, which in turn is dependent upon the Hospital District's ability to meet its financing requirements, and the success of its future operations. Management believes that actions presently being taken to improve the Hospital District's operating and financial environment provide the opportunity for the Hospital District to continue as a going concern. These actions include:

- Delaying acquisition of replacement equipment and leasing equipment rather than purchasing.
- Assessing the feasibility of instituting new ancillary services.
- Other measures to bring the overall Hospital District's costs in line with recent patient service volume levels.
- Implementation of new information technology systems to improve efficiencies in clinical services and financial controls.

ADDITIONAL INFORMATION

HANOVER HOSPITAL

a/k/a WASHINGTON COUNTY HOSPITAL DISTRICT NO. 1

OPERATION AND MAINTENANCE FUND

**SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND
BALANCE – BUDGET AND ACTUAL – BUDGETARY BASIS**

Year ended December 31, 2011

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual Amounts Budgetary Basis</u>	<u>Variance With Final Budget Positive (Negative)</u>
Revenues:				
Net patient service revenue	\$ 2,844,772	\$ 2,844,772	\$ 3,052,016	\$ 207,244
Taxes	37,305	37,305	36,514	(791)
Other	<u>174,100</u>	<u>174,100</u>	<u>173,625</u>	<u>(475)</u>
Total revenues	<u>3,056,177</u>	<u>3,056,177</u>	<u>3,262,155</u>	<u>205,978</u>
Expenditures:				
Salaries	1,524,833	1,524,833	1,756,365	(231,532)
Employee benefits	353,795	353,795	348,321	5,474
Supplies and contractual services	1,056,570	1,056,570	1,081,233	(24,663)
Capital outlay	<u>175,000</u>	<u>175,000</u>	<u>99,910</u>	<u>75,090</u>
Total expenditures	<u>3,110,198</u>	<u>3,110,198</u>	<u>3,285,829</u>	<u>(175,631)</u>
Revenue over (under) expenditures	(54,021)	(54,021)	(23,674)	30,347
Fund balance, beginning of year	<u>206,421</u>	<u>206,421</u>	<u>219,948</u>	<u>13,527</u>
Fund balance, end of year	<u>\$ 152,400</u>	<u>\$ 152,400</u>	<u>\$ 196,274</u>	<u>\$ 43,874</u>

HANOVER HOSPITAL

a/k/a WASHINGTON COUNTY HOSPITAL DISTRICT NO. 1

SCHEDULE OF PATIENT SERVICE REVENUE

Year ended December 31,						
2011			2010			
	Inpatient	Outpatient	Total	Inpatient	Outpatient	Total
Routine service - Acute	\$ 174,525	\$ —	\$ 174,525	\$ 159,450	\$ —	\$ 159,450
Swing bed - Skilled	278,000	—	278,000	291,500	—	291,500
Swing bed - Intermediare care	726,753	—	726,753	403,306	—	403,306
Observation	3,300	152,450	155,750	10,360	116,100	126,460
Nursery	11,700	—	11,700	900	—	900
Operating room	28,696	111,767	140,463	17,534	129,068	146,602
Delivery room	2,900	—	2,900	1,400	—	1,400
Anesthesiology	13,350	10,800	24,150	5,475	19,850	25,325
Radiology	8,953	140,396	149,349	12,418	140,636	153,054
Laboratory	207,163	199,082	406,245	240,051	165,749	405,800
Physical therapy	124,220	176,069	300,289	101,471	136,910	238,381
Speech therapy	—	485	485	1,310	—	1,310
Occupational therapy	2,100	—	2,100	5,050	—	5,050
Electrocardiology	1,320	10,480	11,800	1,040	11,295	12,335
Medical supplies	413,917	151,522	565,439	326,357	162,647	489,004
Pharmacy	575,277	334,993	910,270	736,359	333,665	1,070,024
Cardiac rehabilitation	—	16,495	16,495	—	24,695	24,695
Emergency room	1,400	49,535	50,935	900	40,240	41,140
Ambulance	—	97,712	97,712	—	53,793	53,793
Home health	—	7,210	7,210	—	11,380	11,380
Gross patient service revenue	\$ <u>2,573,574</u>	\$ <u>1,458,996</u>	4,032,570	\$ <u>2,314,881</u>	\$ <u>1,346,028</u>	3,660,909
Contractual adjustments			(911,244)			(858,572)
Bad debts, net of recoveries			<u>(69,310)</u>			<u>25,359</u>
Net patient service revenue			\$ <u>3,052,016</u>			\$ <u>2,827,696</u>

HANOVER HOSPITAL

a/k/a WASHINGTON COUNTY HOSPITAL DISTRICT NO. 1

SCHEDULE OF OPERATING EXPENSES BY FUNCTIONAL DIVISION

Department	Year ended December 31, 2011				Percent of total operating expenses
	Salaries	Supplies and other	Depreciation	Total	
Routine service:					
Adult and pediatrics	\$ 764,934	\$ 49,361	\$ —	\$ 814,295	24.98 %
Nursery	1,031	148	—	1,179	0.04
	<u>765,965</u>	<u>49,509</u>	<u>—</u>	<u>815,474</u>	<u>25.02</u>
Ancillary services:					
Operating room	29,346	13,629	—	42,975	1.32
Delivery room	5,145	—	—	5,145	0.16
Radiology	3,075	40,498	—	43,573	1.34
Laboratory	104,484	156,318	—	260,802	8.00
Physical therapy	—	196,064	—	196,064	6.01
Speech therapy	—	284	—	284	0.01
Occupational therapy	—	1,088	—	1,088	0.03
Electrocardiology	1,322	—	—	1,322	0.04
Medical supplies	17,953	68,088	—	86,041	2.64
Pharmacy	38,775	157,965	—	196,740	6.03
Cardiac rehabilitation	1,042	—	—	1,042	0.03
Emergency room	236,220	82,857	—	319,077	9.79
Ambulance	41,195	12,834	—	54,029	1.66
Home health	3,846	3,355	—	7,201	0.22
	<u>482,403</u>	<u>732,980</u>	<u>—</u>	<u>1,215,383</u>	<u>37.28</u>
General services:					
Nursing administration	104,457	—	—	104,457	3.20
Operation of plant	58,832	95,164	—	153,996	4.72
Laundry	47,519	4,239	—	51,758	1.59
Housekeeping	49,426	9,760	—	59,186	1.82
Dietary	126,314	87,263	—	213,577	6.55
Medical records	12,513	537	—	13,050	0.40
Administration and general	108,936	94,713	—	203,649	6.25
Employee benefits	—	348,321	—	348,321	10.68
Depreciation - building	—	—	53,133	53,133	1.63
Depreciation - equipment	—	—	28,126	28,126	0.86
	<u>507,997</u>	<u>639,997</u>	<u>81,259</u>	<u>1,229,253</u>	<u>37.70</u>
	<u>\$ 1,756,365</u>	<u>\$ 1,422,486</u>	<u>\$ 81,259</u>	<u>\$ 3,260,110</u>	<u>100.00 %</u>

Year ended December 31, 2010					
Department	Salaries	Supplies and other	Depreciation	Total	Percent of total operating expenses
Routine service:					
Adult and pediatrics	\$ 728,316	\$ 34,586	\$ —	\$ 762,902	25.36 %
Nursery	—	194	—	194	0.01
	<u>728,316</u>	<u>34,780</u>	<u>—</u>	<u>763,096</u>	<u>25.37</u>
Ancillary services:					
Operating room	25,574	14,795	—	40,369	1.34
Delivery room	1,800	—	—	1,800	0.06
Radiology	3,127	43,004	—	46,131	1.54
Laboratory	99,288	144,621	—	243,909	8.12
Physical therapy	—	155,969	—	155,969	5.19
Speech therapy	—	770	—	770	0.03
Occupational therapy	—	3,880	—	3,880	0.13
Electrocardiology	1,084	—	—	1,084	0.04
Medical supplies	17,111	34,729	—	51,840	1.73
Pharmacy	34,459	205,616	—	240,075	7.99
Cardiac rehabilitation	1,169	30	—	1,199	0.04
Emergency room	144,186	77,061	—	221,247	7.36
Ambulance	37,791	12,370	—	50,161	1.67
Home health	5,227	4,296	—	9,523	0.32
	<u>370,816</u>	<u>697,141</u>	<u>—</u>	<u>1,067,957</u>	<u>35.56</u>
General services:					
Nursing administration	92,357	—	—	92,357	3.07
Operation of plant	54,894	105,848	—	160,742	5.35
Laundry	47,773	3,571	—	51,344	1.71
Housekeeping	40,860	9,062	—	49,922	1.66
Dietary	116,385	57,184	—	173,569	5.78
Medical records	12,056	1,054	—	13,110	0.44
Administration and general	106,705	101,368	—	208,073	6.92
Employee benefits	—	334,877	—	334,877	11.15
Depreciation - building	—	—	50,948	50,948	1.70
Depreciation - equipment	—	—	38,725	38,725	1.29
	<u>471,030</u>	<u>612,964</u>	<u>89,673</u>	<u>1,173,667</u>	<u>39.07</u>
	<u>\$ 1,570,162</u>	<u>\$ 1,344,885</u>	<u>\$ 89,673</u>	<u>\$ 3,004,720</u>	<u>100.00 %</u>